

THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

Executive Registry

79-634

12 March 1979

National Intelligence Officers

MEMORANDUM FOR: Director of Central Intelligence
VIA: Deputy Director, National Foreign Assessment
FROM: [Redacted]
National Intelligence Officer for China
SUBJECT: PRC Meeting on Economic Relations with
China, Roosevelt Room, 13 March
at 1500 hours

1. Action Requested: Review attached materials dealing with issues discussed during Secretary Blumenthal's trip to China and with further planned developments in US-China economic relations. The PRC meeting, to be chaired by ~~David~~ *David Blumenthal* Aaron, will hear Secretary Blumenthal's report on his trip and consider his recommendations.

2. Background: Secretary Blumenthal visited China from 24 February to March 4 for the purpose of establishing the basis for a new, broadened US-China economic relationship and to clear away if possible the major obstacle to this relationship; namely, the unblocking by the US of frozen Chinese assets for use by the Chinese to pay American claims against them for property seized after the Beijing government took over control of the China mainland in 1949. Secretary Blumenthal attained this last objective, which in turn removed a major obstacle standing in the way of China gaining Most Favored Nation (MFN) tariff treatment for exports sent to the US. With MFN, China's exports would be much more competitive here, and Sino-American trade that much more likely to expand. (The Jackson-Vanik amendment on immigration and other considerations still must be dealt with prior to China's getting MFN, however.)

[Redacted]

25X

3. Also dealt with during the Blumenthal trip were the establishment of a US-China Joint Economic Committee to oversee the development of economic relations; the questions of concluding a trade agreement, MFN, and our granting China Ex-Im Bank financing; the levels which US-China trade might reach (which was estimated by the Chinese at \$20 billion by 1985); China's entry into certain International Financial Institutions; and China's ability to pay for large-scale imports of technology, goods and services. (The Secretary will give his views on why China recently suspended contracts for purchases from Japan.) Finally, Secretary Blumenthal took the opportunity to express to Deng Xiaoping and other senior Chinese leaders our concern over the Chinese attack on Vietnam. Altogether, his visit was quite successful, and laid the groundwork for a follow-up visit on economic matters by Secretary of Commerce Juanita Kreps, who is scheduled to leave for China in early May.

4. During the meeting you may be asked for an assessment of the Soviet reaction to Secretary Blumenthal's trip, which proceeded as scheduled despite the Chinese attack on Vietnam, and was cited by Moscow as evidence of US-China "collusion". An ORPA paper on this subject is at Tab A.

5. Other background materials for your use consist of the following:

a. Memorandum by OER summing up the results of the Blumenthal visit. (Tab B)

b. OER analysis of China's reasons for cancelling contracts with Japan. (Tab C)

c. Account of Secretary Blumenthal's stop in Japan in case this comes up. (Tab D)



Attachment:
As stated

cc: DDCI

Approved For Release 2004/12/22 : CIA-RDP83B00100R000300010019-3

T
A
B
A

Approved For Release 2004/12/22 : CIA-RDP83B00100R000300010019-3

Soviet treatment of Secretary Blumenthal's visit to Beijing has been consistent with Moscow's apparent decision to insulate key issues in US-Soviet relations from broad allegations of US connivance with China against Vietnam. The Soviets thus expressed sharp displeasure over the Blumenthal trip, but stopped well short of linking US policy toward the Chinese attack with the outlook for SALT, detente, or US-Soviet relations generally. At the same time, the Secretary's visit has fueled some standing Soviet complaints that the US does not deal even-handedly with Moscow and Beijing.

Soviet commentary has repeatedly characterized the Secretary's visit as a "gesture of approval" for Chinese aggression, brushing aside reports that Blumenthal conveyed US opposition to the Chinese action. Reporting on the visit itself, however, was low-key and fairly straightforward; there were no accusations about discussion of possible arms sales, such as the Soviets levelled at a high-level British visit taking place in Beijing at the same time

In a private conversation with a US Embassy Officer on 5 March, however, a Soviet diplomat in Beijing pointed to the Blumenthal visit as evidence that the US was not truly pursuing an evenhanded policy toward the USSR and the PRC. He

CONFIDENTIAL

CONFIDENTIAL

recalled the scheduled visits and exchanges with the Soviet Union that were cancelled at US request over the repression of dissidents during 1978, and--perhaps seeking some assurance--contended that the decision to go through with the Blumenthal trip signalled US intention to grant most favored nation status to China but not to the USSR.

25

SOURCES:

1. Press, unclassified

2.

X1

CONFIDENTIAL

T
A
B

B